Urbanatomy E-publications
Urban Future Pamphlets – Series 1: Time Sequence
(2011-13), #3

Suspended Animation

Urbanatomy Electronic

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Suspended Animation

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Introduction

Suspended Animation was written as a sequence of five posts during November-December 2011, largely in response to Tyler Cowen's influential e-book *The Great Stagnation* and the discussion around it. Among all the material in this first *Urban Future* series (which it concludes), it is this essay that exhibits the most tangled reflexivity with regards to its own dates of production and distribution. The syndrome it begins to excavate is the very thing that holds it in suspension, together with the world. It remains cryogenized, or at least, unable to 'naturally' date (unless things have now changed).

Postmodernity, Keynesian economics, and zombies are all aspects of the same time, which we still inhabit – at this moment – with ever greater viscosity. We're so deeply stuck it can easily seem like metaphysical permanence, or macroeconomic progress, but when it ends, Herb Stein will have told us so. Expect a mess.

Nick Land (December 2013)

Suspended Animation

Part 1: Durably unsustainable

According to Herbert Stein's Law, the signature warning of our age, "If something cannot go on forever, it will stop." The question is: When?

The central concerns of environmentalists and radical market economists are easy to distinguish – when not straightforwardly opposed – yet both groups face a common mental and historical predicament, which might even be considered the outstanding social discovery of recent times: the extraordinary durability of the unsustainable. A pattern of mass behavior is observed that leads transparently to crisis, based on explosive (exponential) trends that are acknowledged without controversy, yet consensus on matters of fact coexists with paralyzing policy disagreements, seemingly interminable procrastination, and irresolution. The looming crisis continues to swell, close, horribly close, but in no way that is persuasively measurable closer, like some grating *Godot* purgatory: "You must go on; I can't go on; I'll go on."

Urban Future doesn't do green anguish as well as teeth-grinding Austrolibertarian irritation, so it won't really try. Suffice to say that being green is about to become almost unimaginably maddening, if it isn't already. Just as the standard 'green house' model insinuates itself, with near-universality, into the structure of common sense, the world temperature record has locked into a flatline, with surging CO_2 production showing up everywhere except as warming. Worse still, a new wave of energy resources – stubbornly based on satanic hydrocarbons, and of truly stupefying magnitude – is rolling out inertially, with barely a hint of effective obstruction. Tar sands, fracking, and sub-salt deep sea oil deposits are all coming on-stream already, with methane clathrates just up the road. The world is on a burn, and it can't go on (but it carries on).

Financial unsustainability is no less blatant, or bizarrely enduring. Since the beginning of the 20th century, once (classically) liberal Western economies have seen government expenditure rise from under 5% to over 40% of total income, with much of Europe crossing the 50% redline (after which nothing remotely familiar as 'capitalism' any longer exists). Public debt levels are tracing geometrically elegant exponential curves, chronic dependency is replacing productive social participation, and generalized sovereign insolvency is now a matter of simple and obvious fact. The only thing clearer than the inevitability of systemic bankruptcy is the political impossibility of doing anything about it, so things carry on, even though they really have to stop. Unintelligible multi-trillion magnitudes of impending calamity stack up, and up, and up in a near future which never quite arrives.

The frozen limbo-state of durable unsustainability is the new normal (which will last until it doesn't). The pop cultural expression is zombie apocalypse, a shambling, undying state of endlessly prolonged decomposition. When translated into economic analysis, the result is epitomized by Tyler Cowen's influential e-book *The Great Stagnation: How America Ate All the Low-Hanging Fruit of Modern History, Got Sick, and Will (Eventually) Feel Better*. (Yes, *Urban Future* is arriving incredibly late to this party, but in a frozen limbo that doesn't matter.)

Part 2: Stagnation is a choice

“It can’t carry on like this … but how many weeks have we said that for?”

-- Justin Urquhart Stewart, director at Seven Investment Management (via James Pethokoukis [1])

To make a protracted topic out of this phenomenon is to offer a hostage to fortune. Everything could go over the cliff tomorrow. Perhaps it already has (and we’re just waiting, like Wile E. Coyote, for the consummating splatter).

Greens have been dealing with exactly this question, for a while. After Paul Ehrlich had his credibility torched by Julian Simon, in the most intellectually consequential wager in history, he responded in frustration: “The bet doesn't mean anything. Julian Simon is like the guy who jumps off the Empire State Building and says how great things are going so far as he passes the 10th floor.”

If environmental catastrophe is structured like this, according to a pattern of durable unsustainability, or disconcerting postponement, there is no obvious theory to account for the fact. With economics, things are different, to such an extent that the entire political economy of the world, along with the overwhelming preponderance of professionalized economic ‘science’, has been geared over the course of a little under a century to crisis postponement as a dominant objective. If the New World Order follows a master plan, this is it.

For ideological purists on the free-market right, *laissez-faire* capitalism is the ‘unknown ideal’ (although early 20th century Shanghai approached it, as did its student, Hong Kong, in later decades), but it requires no purism whatsoever to acknowledge that the Great Depression effectively buried it as an organizing principle of the world, and that the system which replaced it found political and intellectual expression in the ideas of John Maynard Keynes.

Commercial self-organization, which built industrial capitalism before anyone had even the sketchiest understanding of what was happening, gave way to the technocracy of macroeconomics, guided by the radically original belief that governments had a responsibility to manage the oscillations of economic fortune.

In the words [2] of Peter Thiel (drawn straight from the free-market id):

… the trend has been going the wrong way for a long time. To return to finance, the last economic depression in the United States that did not result in massive government intervention was the collapse of 1920–21. It was sharp but short, and entailed the sort of Schumpeterian "creative destruction" that could lead to a real boom. The decade that followed — the roaring 1920s — was so strong that historians have forgotten the depression that started it. The 1920s were the last decade in American history during which one could be genuinely optimistic about politics. Since 1920, the vast increase in welfare beneficiaries and the extension of the franchise to women — two constituencies that are notoriously tough for libertarians — have rendered the notion of "capitalist democracy" into an oxymoron.

As Cato's Daniel J. Mitchell puts it [3], more narrowly:

A vibrant and dynamic economy requires the possibility of big profits, but also the discipline of failure. Indeed, capitalism without bankruptcy is like religion without hell.

Because hell's a hard sell, political and economic rationality have been heading in different directions for 80 years. Even the tropical latitudes of purgatory have proven to be socially combustible, and popularly sensitized politics – which need not be formally 'democratic' – tend (strongly) to flee Molotov cocktails in the direction of macroeconomic management. The crucial Keynesian

maxim, “In the long run we are all dead,” is especially pertinent to regimes. Who’s going to regenerate deep economic recovery, if the route to it lies through gulfs of fire and brimstone that are fundamentally incompatible with political survival? History, redundantly, provides the obvious answer: nobody is.

The accursed path not taken, across the infernal abyss, has become so neglected and overgrown with weeds that it is rarely noticed, but it is still graphically marked by the advice that Treasury Secretary Andrew Mellon gave to Herbert Hoover as the way to navigate the Great Depression (advice that was, of course, dismissed):

… liquidate labor, liquidate stocks, liquidate farmers, liquidate real estate… it will purge the rottenness out of the system. High costs of living and high living will come down. People will work harder, live a more moral life. Values will be adjusted, and enterprising people will pick up from less competent people.

In recalling this recommendation, as an unacceptable option, Hoover commemorates the precise moment that capitalism ceased to exist as a politically credible social possibility. The alternative – which has many names, although ‘corporatism’ will do – was defined by its systematic refusal of the ‘liquidationist’ path. Coming out stronger on the other side meant nothing, because the passage would probably kill us – it would certainly destroy our political careers. In any case, it was a long run solution to a short term problem, scheduled by volatile popular irritability and election cycles, and in the long run we are all dead. Better, by far, to use ‘macroeconomic policy’ (monetary mind-control) to artificially prolong unsustainable economic euphoria – or even its jaded, hung-over simulation – than to plunge into a catastrophe that might imaginably have been delayed.

It doesn’t take a Schumpeterian fanatic to suspect that such ‘creative destruction (but without the destruction)’ is unlikely to

provide a sustainable recipe for economic vitality. When evaluated realistically, it is a formula that programs a trend to perpetual stagnation. Stagnation as a choice.

Because money serves as a general equivalent, and thus as a neutral, non-specific, purely quantitative medium of exchange, it is very supportive of certain highly-consequential economic illusions, of a kind that macroeconomics has been especially prone to. It can easily seem as if ‘the economy’ consists essentially of undifferentiated, quantitative aggregates, such as ‘demand’, ‘gross domestic product’, ‘money supply’, ‘land’, ‘labor’, and ‘capital’. In fact, none of these things exist, except as high-level abstractions, precipitated by the monetary function of general exchangeability.

An understanding of Schumpeterian creative destruction requires, as a preliminary, the recognition that capital is heterogeneous. When expressed in a monetary form, it can appear as a homogeneous quantity, susceptible to simple accumulation, but in its productive social reality it consists of technological apparatus – tools, machines, infrastructures, and installations – representing irretrievable investments, of qualitatively distinctive kinds. The monetary equivalent of such industrial capital is derived from the market values attributed its various components, and these are extremely dynamic, virtual, and speculative. Since the value retrievable from liquidation (and ultimately from scrap) is generally a small fraction, or lower bound, of capital asset value, the ‘capital stock’ is estimated with reference to its productive usage, rather than its intrinsic worth. Schumpeter was careful to break this down into two very different aspects.

Firstly, and most straightforwardly, industrial capital is a resource that depreciates at a regular and broadly predictable rate as a function of output. It is consumed in the process of production, like any other material input, but at a slower rate. Creative destruction, however, refers to a second, far more drastic type of capital depreciation, resulting from technological obsolescence. In this case, capital stock is ‘destroyed’ – suddenly and unpredictably – by an innovation, taking place elsewhere in the economy, which

renders its anticipated use unprofitable. In this way, large ‘quantities’ of ‘accumulated’ capital can be depreciated overnight to scrap values, and the investments they represent are annihilated. The hallucination of homogeneous capital is instantaneously vaporized, as painstakingly built fortunes are written down to nothing.

Several points suggest themselves:

1. The violence of creative destruction is directly proportional to its fecundity. The greater, deeper, and more far-reaching the innovation, the more colossal is the resulting capital destruction. At the extreme, profound technological revolutions lay waste not only to specific machines and skills, but to entire infrastructures, industries, occupational categories, and financial systems.

2. The cultural implication of creative destruction far exceeds issues of ‘moral hazard’ and ‘time preference’. The victims of industrial change waves – whether businesses, workers, or financiers – are not being punished by the market for imprudence, slackness, or short-sightedness. They are ruined by pure hazard, as the reciprocal of the absolutely unanticipated nature of technological invention (occurring elsewhere). Neither the creation, nor the destruction, is remotely ‘fair’ – or ever could be. (Although Dawinian 'virtue' lies in flexible adaptability -- Hong Kong always does OK.)

3. Massive capital destruction expresses technological revolution. Macroeconomic analysis (measuring homogeneous aggregates) will always miss the most significant episodes in industrial evolution, since these do not register primarily as growth, but rather the opposite. Hell is a hothouse.

4. A policy environment designed to preserve macroeconomic aggregates (e.g. 'wealth' or 'employment') necessarily opposes itself to the basic historical process of industrial revolution, because destruction of the existing economy is strictly indistinguishable from industrial renewal. For that old stuff to be worth anything (beyond scrap) we have to keep using it, which means that we're not switching over. To cross the gulf, we have to enter the gulf. (Like most things in this universe: harsh but true.)

5. Real historical advance is now politically unacceptable. Either politics wins (eternal stagnation) or history does (political collapse). Interesting times (or not).

The world couldn’t take the heat, so it got out of the kitchen. There’s cold porridge for dinner, and it’s going to be cold porridge for breakfast. Eventually the porridge will run out, but that could take a while …

... and here's Ben Bernanke on topic: "I'm not a believer in the Old Testament theory of business cycles. I think that if we can help people, we need to help people.” (via Mike Krieger at ZH [4])

Cold porridge politics forever. Yum!

Notes

[1] http://www.aei-ideas.org/2011/11/eurocrisis-what-you-missed-while-you-slept/

[2] http://www.cato-unbound.org/2009/04/13/peter-thiel/education-libertarian

[3] http://www.policymic.com/article/show/id/2449/op/no

[4] http://www.zerohedge.com/news/mike-krieger-exposes-three-card-monti

Part 3: Zombie time

I wish I was saying it's going to happen soon… this is the longest running crisis in which people have been giving false dates, people turning up for summits saying it has to be resolved, nothing happens and people go away and the sky doesn't fall in… sooner or later the sky will fall in, I'm just not clever enough to know when it's going to be.

-- Anthony Fry, UK Chairman of Espirito Santo Investment Bank (to CNBC) [1]

Europe will adopt the American solution. The ECB will not allow large banks to default. It will inflate to buy the bad assets or else buy the bonds of the governments, so they can make payments. Then the bankers will put this money into excess reserves. New lending to businesses will cease. The West will go into permanent recession or no-growth stasis. The governments will absorb an ever-larger percentage of the region's capital: bond sales. Private firms will not be able to borrow at low rates. Capital development will crease.

-- Gary North [2]

The new millennium is teaching us vastly more about zombies than anybody could have anticipated. Long gone are the virile, predatory vampires that once populated horror stories about capitalism, sucking out the vital essence of the proletariat in gothic fortresses of ‘dead labor’. Instead, shambling worm-eaten wrecks mill about aimlessly, whilst augmenting their numbers in obscure cannibalistic circuits that defy rational comprehension and which are, in any case, too hideous to steadily contemplate. Fiends have degenerated into ghouls, who do not hunt and feed to strengthen themselves, but only to carry on, prolonging their putrescent decrepitude.

A 2002 *Guardian* story [3] about “Japan's zombie economy” prefigures a number of later, and more general, revelations. In particular, it identifies the spreading zombie apocalypse with the slow-motion collapse of Keynesianism, as ‘stimulative’ monetary and fiscal policies (zero interest rates combined with massive government deficit spending) lose their magical powers of revitalization, and instead merely perpetuate an interminable state of undeath. Hyper-stimulation is required just to hang on to the flatline.

Of course, being *The Guardian*, the solution is obvious: “what the economy needs now is a good dose of inflation.” For undead Keynesians, there’s no malaise too deep for an invigorating wave of currency destruction to solve. This is where the zombie metabolism really gets interesting. By the end of the decade, America had gone full zombie itself, and begun to realize that this wasn’t just some weird Japanese thing it didn’t understand, but an altogether more general and radically mysterious phenomenon. Ben Bernanke’s Federal Reserve pushed US interest rates to the floor (ZIRP) and began to incontinently monetize public debt (QE) whilst nationalizing private debt (TARP), using every available policy instrument to direct the economy in an inflationary direction, at maximum velocity. Nothing much happened. Zombies don’t do fever.

At this point, the questions come flooding in. For instance: why is anybody still buying Japanese or American government bonds? Isn’t it obvious that this paper represents nothing except a slice of unredeemable debt, promising an insulting return, ‘guaranteed’ by a structurally insolvent entity, and associated with policies more-or-less explicitly oriented towards deliberate currency destruction? What are people thinking? To answer that, it’s necessary to venture a little deeper into the zombie world.

The idea of the US Dollar (or Japanese Yen) as a ‘safe haven’ might sound like a joke, and you’ve probably heard it before:

Joe Dollar and Jacques Euro are camping in the woods, when they suddenly hear the terrifying snuffles of a famished carnivore, getting closer. Joe begins hastily pulling on his running shoes. "What are you doing?" asks Jacques. "You can't out-run a bear market."

"I don't need to outrun the market," Joe replies. "I just need to outrun you."

At *Asia Times Online*, Martin Hutchinson envisages a financial crisis endgame that "eliminat[es] the government debt markets that have formed the centerpiece of the last three centuries"[4], returning the world to the market-based money and free banking regime of 1693, before the creation of the Bank of England. Paradoxically, however, the prospect of collapse raises the financial potency of the state to an unprecedented level, as the 'safety' it promises disconnects from questions of economic competence and reverts to something far more atavistic and Hobbesian. Once everything starts to buckle, credibility attaches to the biggest, meanest, and most ruthless provider of mafia-style 'protection'. Relativistic (zero- or negative-sum) power politics takes center stage.

A pedestrian but informative financial report [5] from *Bloomberg* sets it out clearly:

Jim Chanos, founder of the Kynikos Associates Ltd. hedge fund, said that while the chances of a recession may be increasing, the U.S. economy is the "best house in a bad neighborhood"

The US Dollar might be nothing more than the "best looking horse in the glue factory," but once the financial logic of zombie apocalypse takes over, the implications can be far-reaching. *Bloomberg* continues:

Ten-year Treasuries erased losses after the U.S. sold $29 billion of seven-year securities at a record low yield of 1.415 percent, wrapping up $99 billion of note sales this week. Ten- year yields fell four basis points to 1.88 percent after climbing as much as four points earlier. The rate is up from a record low of 1.67 percent on Sept. 23.

U.S.Treasuries maturing in seven to 10-years have returned 14 percent this year, outperforming a 9.3 percent return for the broader Treasury market, according to Bank of America Merrill Lynch indexes, as of yesterday [Nov. 23].

It's worth taking a moment to digest these numbers. Nobody expects average (real) US inflation over the next seven years to come in under 1.415% p.a., or under 1.88% over the next ten, so the yield is sheer racketeering. Yet this blatant assault on the lower colon of savers has been compatible with a one-year return of 14% (!) -- they're begging for it. Seriously, who cares if Bernanke is lighting up a fat Cuban with a large bill lifted straight out of their pocket? It just makes him look *badder*, and that's what they're paying for. Gold sounds good in theory, but it doesn't come with its own attached gangster organization, so hanging onto it through the zombie interlude could be difficult. It's safer, by far, to invest in the alpha state.

Because this Hobbesian zombienomics is political and relativisitic, there are epsilon states at the other end of the trade, as well as a beta state caught in the middle. Europe isn't a state at all, of course, which is how the (interminable) final phase of zombienomics got started. Before it changed, however, the EU conjuring act seemed to be going pretty well. Every Eurozone member state issuing government debt in the common currency paid yields that were broadly harmonized, as if Europe was a financially sovereign entity, standing united behind its paper. The realization that economic sovereignty remained national, even after the

alienation of monetary sovereignty to the European Central Bank, came as something of a shock, and bond spreads gaped accordingly.

The hallucination of ‘Europe’ as a united, honorary alpha state, rapidly degenerated to reality, recoding government bonds as zombie apocalypse security scrip. Suddenly, Greek bonds stopped having anything much to do with the ECB, and started to mumble promises in Greek – ultimately, that the Greek state would do whatever it took to secure redemption, whilst mobilizing its Olympian powers to maintain social discipline if necessary. A flight for the exits immediately ensued. Ditto, with variations of speed and intensity, for all the epsilons (= PIIGS).

Where to flee? That’s the zombienomic question par excellence (searching for the best looking horse in the glue factory). First choice, for the keenest Hobbes readers, was to head straight to Mr. Big, a.k.a. Benny the Yank, wait politely whilst he finished smoking a mirved nuke, and then beg for protection (that’s your 14% one year jump in the value of a 10-year US Treasury bond, right there). The second choice -- more appealing to old-fashioned types who thought economics still counted for something – was to look for comparative financial responsibility closer to home.

For a brief moment, this route led to genuine quality, but zombienomics quickly resumed its grip:

Switzerland sparked fears of a new currency war on Tuesday [Sept. 6] after it pegged the Swiss franc against the euro in an attempt to protect its economy from the European debt crisis.

The Swiss National Bank in effect devalued the franc, pledging to buy "unlimited quantities" of foreign currencies to force down its value. The SNB warned that it would no longer allow one Swiss franc to be worth more than €0.83 – equivalent to SFr1.20 to the euro – having watched the two currencies move closer to parity as

Switzerland became a "safe haven" from the ravages of the eurozone crisis.

… which brings us to Germany, and the latest chapter in the zombie saga -- comic or tragic, and probably both, ironic to the point of absurdity in any case. Ruined, shrunken, divided, and traumatized by guilt, post-war Germany sought above all to bury its nationalistic aspirations in Europe. What became the EU was for Germany – as Algeria was for the French foreign legionnaires – a place in which to forget. Now the bond 'market', in its increasingly desperate search for a big, tough, disciplinary state (a global beta will do fine), is determined to dig the Teutonic Leviathan from its grave.

With twin memories of Weimar hyper-inflation and statist hyper-assertion still vivid, Germany is stubbornly holding out against the full-zombie option of (monetary and fiscal) financial debauchery counter-balanced by Hobbesian security politics. This reluctance to throw itself into the spirit of the age has, naturally enough, exposed it to relentless international vilification, and the pressure will only increase. It could all get unpleasantly interesting.

Notes

[1] http://www.cnbc.com/id/45398839

[2] http://archive.lewrockwell.com/north/north1066.html

[3] http://www.theguardian.com/business/2002/nov/20/japan.internationalnews

[4] http://www.atimes.com/atimes/Global_Economy/MK24Dj02.html

[5] http://www.bloomberg.com/news/2011-11-23/asia-stocks-u-s-futures-oil-drop-on-economy-outlook-mining-shares-sink.html

[6] http://www.theguardian.com/business/2011/sep/06/switzerland-pegs-swiss-franc-euro

Part 4: Sub-optimal equilibrium

By the beginning of the second decade of the new millennium, the world had begun to adapt itself to a problem that had tortured it in the 1930s, and deformed it subsequently -- that of sub-optimal equilibrium. The practical significance of this idea is difficult to exaggerate.

As a rigorous economist, Henry Hazlitt was theoretically entitled – and even compelled – to savagely deride the Keynesian model of 'low-employment equilibrium', and to painstakingly explain that it did not describe an equilibrium of any kind (in economic terms). Yet such attacks, like those of the Austrians more generally, have been of slight consequence, since Keynes was not in any strongly defensible sense an economist, but rather a political economist, in both of the obvious ways this expression can be understood. His bad equilibrium did not reflect the operation of market forces, but rather, the workings of the market under a specific conception of politically realistic circumstances, and the 'analysis' of the *General Theory* was less a technically rigorous description of events than a political prescription for action, keenly attentive to the opportunities and constraints affecting its application, or transition into policy.

Keynes defined the political spirit of the second half of the 20th century, first in the West, and later more widely, by normalizing the pre-eminence of the state in economic affairs, and by subordinating the idea of economic self-correction to political considerations. The role of the new political economy, now technocratically mainstreamed as economic policy, was to route around labor markets, which could never be expected to work efficiently, since downside corrections were judged politically unacceptable. Pure economics was ended, or at least utterly marginalized, by the recognition that labor could opt out of the game, kick over the table, and refuse to play the commodity. Market-clearing labor pricing became an abstract (and, for Keynesians,

risible) conception, oblivious to the realities of popular democratic politics, and – *in extremis* – the potential for Marxian revolution.

Hence the consensus-building sympathy for the Keynesian approach on the establishment right, where it was interpreted as a bulwark against Marxist temptations, and also the deep antipathy it elicited on the anti-establishment right, where it was (no less realistically) understood as a pre-emptive concession to socialism. On the left, a comparable schism was evident, between those who embraced it as a curtailment of capitalism, and those who denounced it as an ersatz socialism, designed for conservative convenience. The Keynesian 'middle' has been the decisive political reality of the 20th century, and its multiple ideological meanings still organize every major axis of socio-economic controversy.

When labor markets are locked on the downside – through macroeconomic recognition and political petrification of their 'stickiness' – some kind of socio-economic ratchet mechanism is automatically produced. To an extent, capital can flee into informalization (for instance illegal immigrant labor), or international labor arbitrage, intensifying the trend to out-sourcing and globalization. More central, however, are the twin macro-tendencies Keynes focused upon: towards fiscal and monetary compensations, based on demand management and the exploitation of 'money illusion' (or attachment to nominal income). Fiscal stimulus can be undertaken in an attempt to elevate demand, until it reaches a point of artificial equilibrium commensurate with labor price levels (thus clearing unemployment). Alternatively, or in concert, money supply can be expanded – and currency degraded – to facilitate real wage decreases despite nominal stickiness.

Essentially, that's it. There's no other ammo in the macroeconomic arsenal. This is remarkable given the fact that both fiscal and monetary adjustments are mere tricks, and not even sophisticated tricks, but quite straightforward attempts at confidence manipulation that anybody with 'rational expectations' sees through

immediately, thus neutralizing them. On the monetary side this is especially obvious -- and well-attested historically. Once inflationary expectations have become entrenched, they become the staple topic of wage negotiations, as was seen in the 1970s. There is no evidence whatsoever to suggest that workers are indifferent to inflationary wage depreciation. ‘Money illusion’ – insofar as it exists at all – is basically a one-off scam, harvested in the brief period when a long-established reputation for responsible currency management is thrown in the trash. Fool me once, shame on you, fool me twice isn’t going to happen. Basing economic policy on this is the cheapest kind of street hustle (and few would any longer admit to trying it in public).

Stimulus isn’t much better. Real demand is ultimately exchange, and thus derivative from supply. Nobody can (economically) demand anything, without having something to offer in return – that’s Say’s Law, and it’s theoretically impregnable, because it’s elementary common sense. The only way to steer around it is conjuring, by extracting demand from one part of the economy invisibly, and re-inserting it conspicuously somewhere else. This kind of magic can get quite Byzantine, so it tends to reach exhaustion more slowly than monetary abuse, but its foundations in sustainable economic reality are no more secure. Once taxpayers acknowledge government debts as liabilities (future tax payments) that have already been virtually deducted from their spending power, the game is over. Since a plausible model for (expansive) fiscal policy exhaustion is sovereign debt crisis, it is not unreasonable to begin drawing the curtains already.

Given the exponential trend of social history, most of what has ever happened has taken place since the Great Depression began, and during this time the world has inhabited -- more or less consciously -- a deliberately constructed system of illusion, or confidence trick. Whether analyzed from the left or the right, the most striking feature of this situation has been inadequately apprehended, or even interrogated: how has it persisted? How can

something that is transparently [insert epithet] unworkable last for over 80 [insert triple epithet] years?

Eighty years is a pretty good human life-span. Someone could easily expend their life within the Keynesian dream-palace, literally living a lie, with the implication that whatever importance ‘reality’ might have in theory, it need have almost nothing to do with us. We can miss it completely, caught up in a magic show that exceeds our longevity, half-hypnotized by illusions that no one really believes in, but which suffice to put things off, and off, and off, and ... in the long run we are all dead. Who cares about a truth that never arrives? A magic trick that lasts your whole life is your life. Scarcely anybody alive today has known anything else.

And it's all going to be over real soon ... honestly ...

Part 5: Postponement

Does Postmodernism still seem cool to anybody? -- Probably not. Having sold whatever simulacrum of a soul it might have had to the fickle gods of fashion, it has learnt more about the reign of Chronos than it might have expected to – the kids get devoured, and it's on to something new. What was accepted for no good reason gets discarded for no good reason. In political science it's called democracy (but that's another discussion).

Clearly, there's something profoundly just about the disappearance of postmodernism into the trashcan of random difference (what's 'in' has to be new, preferably meaninglessly so). It's even 'poetically just', whatever that means. But it also destroys information. Although Postmodernism was certainly a fad, it was also a *zeitgeist*, or spirit of the times. It meant something, despite its own best efforts, at least as a symptom. The disappearance of reality that it announced was itself real, as was the realm of simulation that replaced it. At least in its death, it might have amounted to something.

Consider its greatest mystagogue, Jacques Derrida, and his once widely celebrated 'concept' of *différance* (yes, with an 'a'), a term within a series of magical words that mark the undecidable, ungraspable, unpresentable, and ultimately inconceivable ontological non-stuff that supplants real events, through an endless succession of displacements and postponements. We can't really say anything about it, so we have to talk about it endlessly, and entire university departments are required to do so. It's ridiculous (and so it's over). But it's also, quite exactly, the globally hegemonic culture of Keynesianized, macroeconomic, programmatic stagnationism, and that isn't over yet, although its morbidity is already highly conspicuous. Unlike faddish academic Postmodernism, its death is going to be really interesting.

Long before the Derridoids got started, Keynes had taught governments that *différance* was something they could do. Procrastination – the strategic suspension of economic reality through a popularly ungraspable series of displacements and postponements – quickly came to define the art of politics. Why suffer today what can be put off until tomorrow, or suffer yourself something that could be somebody else's problem? *Postpone! Displace! In the long run we are all dead. Reality is for losers*.

Différance as it really works is a lot cruder than its reflection in Postmodern philosophy (and what could be philosophically cruder than an appeal to the notion of 'reflection'?). For instance, it is fished out of the ontological *abgrund* and processed by specific public policy mechanisms, sustained by concrete institutions in ways that are to a considerable extent economically measurable, within elastic but most certainly finite geographical and historical limits. Crudest of all, and ultimately decisive, is the circumscription of derealization, by the real, and the return of the apocalyptic, no longer as a phantasmatic avatar of the 'metaphysics of presence' (or false promise of a real event), but as an impending real event, and one whose process of historical construction is in large measure intelligible. Real *différance* didn't 'deconstruct' the apocalypse, it built it. It's not even that difficult to see how.

At *EconLog*, David Henderson has posted his notes [1] from John H. Cochrane's December 3 talk at Stanford University's Hoover Institution conference on 'Restoring Robust Economic Growth in America'. There's no mention of *différance*, but there doesn't need to be.

For nearly 100 years we have tried to stop runs with government guarantees -- deposit insurance, generous lender of last resort, and bailouts. That patch leads to huge moral hazard. Giving a banker a bailout guarantee is like giving a teenager keys to the car and a case of whisky. So, we appoint regulators who are supposed to stop the banks from taking risks, in a hopeless arms race against smart

MBAs, lawyers and lobbyists who try to get around the regulation, and though we allow -- nay, we encourage and subsidize -- expansion of run-prone assets.

In Dodd-Frank, the US simply doubled down our bets on this regime.
…

Bailouts delay a painful economic event (postponement) whilst transferring financial liability (displacement). Risk is restored to virtuality, as disaster is turned back into a threat, but it isn't the same threat. By any remotely sane method of accountancy, it's now worse. Significant virtual deterioration is substituted for actual discomfort. That's the cost of derealization.

How do things get worse, exactly? -- In plenty of ways. Start with 'moral hazard', which is a polite way of saying 'insanity'. Actions are decoupled from their consequences, removing the disincentive for craziness. The result, utterly predictably, is more craziness. In fact, anything that systematically enhances moral hazard is simply manufacturing craziness. It's dumping LSD in the water supply, although actually probably worse. So bailouts drive us insane and destroy civilization (no one really disputes that, although they may try to avoid the topic).

Oh, but there's more! -- Much more, because all these displacements don't just move things around, they move them up. Risk is centralized, concentrated, systematized, politicized – and that's in the (entirely unrealistic) best case, when it isn't also expanded and degraded by the corruption and inefficiency of weakly- or cynically-incentivized public institutions. This is trickle up – really flood up – economics, in which everything bad that ever happens to anybody gets stripped of any residual sanity (or realistic estimation of consequences), pooled, re-coded, complicated by compensatory regulation, and shifted to ever more ethereal heights of populist democratic irresponsibility, where the only thing that matters is what people want to hear, and that really isn't ever going to be the truth.

“Mess up enough, and you probably suffer or die” – that’s the truth. It’s a message that doesn’t translate into the language of Keynesian kick-the-can politics, which is folk Postmodernism. The nearest we get, as the jaws begin to close on the bail-out bucket chain, is “We’re going to need a bigger boat.” After innumerable episodes of that, we’re all huddled together on the Titanic, and things are kinda, sorta, looking OK. At least the band’s still playing …

When abstracted from its squalid psychosis, the pattern is mathematically quite neat. It’s called the Martingale system, better known to Americans as ‘double or nothing’ (and to Brits as ‘double or quits’). Cochrane already touched upon it (“the US simply doubled down our bets”). Wager on red, and it comes up black. No problem, just double the bet and repeat. You can’t lose. (If you like this logic, Paul Krugman has an economic recovery to sell you.)

What appears as disaster postponed is, in virtual reality, disaster expanded. The Wikipedia entry on the Martingale system helpfully connects it to the Taleb Distribution, otherwise known as scrounging pennies in front of a steam roller. The persistence of small gains makes this business model seem like a sure thing -- until it doesn’t.

Nassim Nicholas Taleb and Mark Blyth expand on the idea [2] in *Foreign Affairs*, with application to various aspects of the current (or impending) crisis. Asking why “surprise [is] the permanent condition of the U.S. political and economic elite” they trace the problem to “the artificial suppression of volatility -- the ups and downs of life -- in the name of stability.”

Complex systems that have artificially suppressed volatility tend to become extremely fragile, while at the same time exhibiting no visible risks. In fact, they tend to be too calm and exhibit minimal variability as silent risks accumulate beneath the surface. Although the stated intention of political leaders and economic policymakers is to stabilize the system by inhibiting fluctuations, the result tends to be the opposite. These artificially constrained systems become

prone to "Black Swans" -- that is, they become extremely vulnerable to large-scale events that lie far from the statistical norm and were largely unpredictable to a given set of observers.

Discussing this article at PJMedia, Richard Fernandez glosses and sharpens its conclusion [3]:

Part of the problem is the consequence of [the elites'] own damping. By attempting to centrally manage systems according to some predetermined scheme they actually store up volatility rather than dispersing it. By kicking the can down the road they eventually condemn themselves to bumping into a giant pile of cans when they run out of road. … But the elites cannot admit to surprise; nor can they admit to bad things starting on their watch. Therefore they keep sweeping things under the carpet until, as in some horror movie, it spawns a zombie. To make systems robust, says Taleb, you've got to admit that you can make mistakes and pay the price. You will have to in the end anyway.

We aren't in Postmodernism anymore, Toto. We're nearer to this:

The wavelike movement affecting the economic system, the recurrence of periods of boom which are followed by periods of depression, is the unavoidable outcome of the attempts, repeated again and again, to lower the gross market rate of interest by means of credit expansion. There is no means of avoiding the final collapse of a boom brought about by credit expansion. The alternative is only whether the crisis should come sooner as the result of a voluntary abandonment of further credit expansion, or later as a final and total catastrophe of the currency system involved. (Ludwig von Mises, *Human Action*)

Or even this:

Great is Bankruptcy: the great bottomless gulf into which all Falsehoods, public and private, do sink, disappearing; whither, from the first origin of them, they were all doomed. For Nature is true and not a lie. No lie you can speak or act but it will come, after longer or shorter circulation, like a Bill drawn on Nature's Reality, and be presented there for payment,- -with the answer, No effects. Pity only that it often had so long a circulation: that the original forger were so seldom he who bore the final smart of it! Lies, and the burden of evil they bring, are passed on; shifted from back to back, and from rank to rank; and so land ultimately on the dumb lowest rank, who with spade and mattock, with sore heart and empty wallet, daily come in contact with reality, and can pass the cheat no further.

Observe nevertheless how, by a just compensating law, if the lie with its burden (in this confused whirlpool of Society) sinks and is shifted ever downwards, then in return the distress of it rises ever upwards and upwards. Whereby, after the long pining and demi-starvation of those Twenty Millions, a Duke de Coigny and his Majesty come also to have their 'real quarrel.' Such is the law of just Nature; bringing, though at long intervals, and were it only by Bankruptcy, matters round again to the mark.

But with a Fortunatus' Purse in his pocket, through what length of time might not almost any Falsehood last! Your Society, your Household, practical or spiritual Arrangement, is untrue, unjust, offensive to the eye of God and man. Nevertheless its hearth is warm, its larder well replenished: the innumerable Swiss of Heaven, with a kind of Natural loyalty, gather round it; will prove, by pamphleteering, musketeering, that it is a truth; or if not an unmixed (unearthly, impossible) Truth, then better, a wholesomely attempered one, (as wind is to the shorn lamb), and works well. Changed outlook, however, when purse and larder grow empty! Was your Arrangement so true, so accordant to Nature's ways, then how, in

the name of wonder, has Nature, with her infinite bounty, come to leave it famishing there? To all men, to all women and all children, it is now indutiable that your Arrangement was false. Honour to Bankruptcy; ever righteous on the great scale, though in detail it is so cruel! Under all Falsehoods it works, unweariedly mining. No Falsehood, did it rise heaven- high and cover the world, but Bankruptcy, one day, will sweep it down, and make us free of it. (Thomas Carlyle, via Mencius Moldbug [4], but cited all over the place recently)

Here it comes.

Notes

[1] http://econlog.econlib.org/archives/2011/12/john_cochranes_1.html

[2] http://www.foreignaffairs.com/articles/67741/nassim-nicholas-taleb-and-mark-blyth/the-black-swan-of-cairo

[3] http://pjmedia.com/richardfernandez/2011/12/03/why-too-big-to-fail-means-wait-for-it/#more-19080

[4] http://unqualified-reservations.blogspot.com/2010/01/on-sovereign-financial-reconciliation.html